

ARTICLE APPEARED
ON PAGE 1

WALL STREET JOURNAL
24 AUGUST 1982

Australian Mystery

Fall of a Banking Firm Spotlights the Roles Of High U.S. Officials

Frank Nugan's Violent Death Opens Lid on Odd Traffic In Dope, Foreign Funds

Politicians Charge Cover-Up

By JONATHAN KWITNY

Staff Reporter of THE WALL STREET JOURNAL

SYDNEY, Australia—At 4 a.m. Sunday, Jan. 27, 1980, a police sergeant and a constable, according to their testimony, were patrolling a lonely stretch of highway 90 miles from here when they spotted the parking lights of a Mercedes on an old road off in the woods. Inside the car, slumped across the front seat in a puddle of blood, was the body of a 37-year-old man with a new rifle in his hands.

They searched his pockets and found the business card of William Colby, the former

This is the first of a series of articles.

U.S. director of central intelligence. On the back of the card was the itinerary of a trip Mr. Colby planned to make to Asia in the next month. The two policemen also found a Bible with a meat-pie wrapper interleaved at page 252; on the wrapper were scribbled the names of Mr. Colby and U.S. Rep. Bob Wilson of California, then the ranking Republican on the House Armed Services Committee.

All this might sound like the beginning of a Hollywood spy movie, but the studios would have to assign their most imaginative scriptwriters to produce a tale as startling as the real-life events that have followed that grisly discovery more than two years ago. The body was quickly identified as that of Frank Nugan, the chairman of a group of companies affiliated with the private Australian banking concern of Nugan Hand Ltd. Since then, investigations have pieced together a picture of an amazing swindle that spanned six continents and bilked investors out of millions of dollars.

A Political Issue

More perplexing yet, evidence has turned up that Nugan Hand bank was deeply involved in moving funds about the world for big international heroin dealers and also might have been involved in the shady world of international arms traffic. To cap it off,

the offices of Nugan Hand and its affiliates were loaded with former high-ranking U.S. military and intelligence officials (see story on Page 22).

This has convinced many Australians that the company was involved in secret work for the U.S. government. Despite official denials from Washington, the issue has refused to die and has become one of the central debating points in Australian politics.

The issue of U.S. investment may be hard to resolve because many of the essential records were destroyed. Within hours after the discovery of Frank Nugan's body, telephones began ringing urgently all over the world. One was on the desk in Manila of three-star U.S. Gen. LeRoy J. Manor, the recently retired chief of staff for all U.S. forces in Asia and the Pacific. After his retirement, Gen. Manor had been on secret duty for the Air Force and at the time of Mr. Nugan's death he was helping run Nugan Hand's Philippine office.

Ransacking the Files

According to Nugan Hand's public-relations man, Tony Zorilla, Gen. Manor called him and told him to stop the wire services from reporting Mr. Nugan's death. Mr. Zorilla says he replied that this would be unethical and impossible, and he refused. (Gen. Manor would describe his activities with Nugan Hand only in general terms, and he wouldn't discuss this incident.)

Halfway around the world, Rear Adm. Earl P. "Buddy" Yates, the recently retired chief of staff for strategic planning for U.S. forces in Asia and the Pacific, heard the news and immediately jetted to Sydney. Nugan Hand's main office. Adm. Yates was the president of Nugan Hand, though he lived in Virginia Beach, Va. En route to Sydney, he met Nugan Hand's vice chairman, Michael Hand, a highly decorated Green Beret during the Vietnam War and a former U.S. intelligence operative, coming from London. They raced to the Nugan Hand office and with a few other insiders began ransacking the files.

According to witnesses, enough records to fill a small room were fed to a shredder. Others were packed in cartons, with everyone helping, and carried at night to the back room of a butcher shop owned by Robert W. Gehring, a former Army sergeant in Vietnam. Mr. Gehring worked for Maurice Bernard Houghton, a mysterious Texan who has owned several bar-restaurants in Sydney and who had played an active role in Nugan Hand's affairs since its inception in 1973.

A Lawyer's Advice

Mr. Houghton not only joined the rape of the files, but also brought his lawyer, Michael Moloney, to direct it. According to the testimony of Stephen K. A. Hill, a Nugan Hand director who joined the record-ripping that week, Mr. Moloney urged the group on by warning, "I am fully aware of what has been going on. You all face jail terms of up to 16 years."

According to Mr. Moloney, "before the law will be cut into pieces."

Mr. Moloney in a recent interview said, "Sure, I advised Hand to take documents out of the office. I was told there were serious deficiencies in the accounts. Everything I did I talked about with Yates first." (Adm. Yates refuses to discuss any part of his activities with Nugan Hand.)

A few months later, on April 11, 1980, Nugan Hand went into liquidation. And the secrets that were so frantically being destroyed after Frank Nugan's death began to be reconstructed. Exposed to view, like maggots, were dozens of affiliated corporations, with little or no real assets, that Nugan Hand had set up to help its clients avoid taxes and move money overseas secretly and often illegally. Mr. Nugan had boasted that \$1 billion a year passed through these companies.

Still unanswered is the question of why so many high-ranking U.S. military and intelligence officials were working for the company. The CIA has denied involvement, and the State Department says that Nugan Hand wasn't in any way a U.S. government operation. But liquidators of the company and various Australian law-enforcement officers express anger and bewilderment that the CIA, the FBI and the U.S. Customs Service, all of which have information on Nugan Hand, have refused to release it to help in the current criminal and civil investigations.

"It has obvious overtones that somebody is covering something up," says the court-appointed Australian liquidator, John W. O'Brien.

From its base in Sydney, Nugan Hand had opened at least 22 offices around the world, including four in the U.S. After the company failed, anguished messages poured in from individuals who had invested money at above-market interest rates in securities sold by Nugan Hand and who now stood to lose everything. Liquidators say the official shortfall could reach \$50 million. The victims include many Americans, not only on the U.S. mainland but also at construction sites in Saudi Arabia and at military bases and legations throughout the Far East, Hawaii and the Philippines.

Nugan Hand carried out its operations with intense secrecy. Cables and interoffice messages were in code and often were marked "Destroy After Perusal." Company employees and customers were referred to by coded serial numbers rather than by name, and even references to foreign currencies were disguised: "Oats" stood for Swiss francs, "grains" for U.S. dollars and so forth down to "berries" for Portuguese escudos.

CONTINUED